SGI CANADA INSURANCE SERVICES LTD.

2001 ANNUAL REPORT

SGI CANADA

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About SGI CANADA Insurance Services Ltd. (SCISL):

SGI, which has been insuring the things Saskatchewan people value most for more than 50 years, decided in the early 1990s to expand into other provinces – a sound business move, as expansion offered improved protection for customers by spreading the geographical base of risk. To assist expansion, SGI CANADA Insurance Services Ltd. (SCISL) was formed. SCISL is a share-capital company which sells property and casualty insurance products outside Saskatchewan.

SCISL and SGI CANADA are separate operations which share the same head office in Regina. Since 1995, SCISL has also run an operational base out of Winnipeg. SCISL underwrites business outside Saskatchewan, while SGI CANADA sells property and casualty insurance products within the province. SCISL began writing business in Manitoba in September 1993 and in Ontario in November 1995.

In 2001, SCISL purchased a 75% share in the Insurance Company of Prince Edward Island and 100% of Coachman Insurance Company in Ontario.

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Mayor of Prince Albert
Prince Albert, SK

J. Walter Bardua, Vice-Chair
Retired insurance professional
Nanaimo, BC

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Lawyer
Saskatoon, SK

Letter of Transmittal

Regina, Saskatchewan
March 2002

To Her Honour,
The Honourable Lynda Haverstock,
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of SGI CANADA Insurance Services Limited for the year ended December 31, 2001. The financial statements have been audited by KPMG.

I have the honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation

Year in Review - 2001

A YEAR OF GROWTH

2001 was an unprecedented year of growth and diversity for SGI CANADA Insurance Services Ltd. (SCISL).

SCISL started off the year by purchasing 75% of the shares in the Insurance Company of Prince Edward Island (ICPEI) in January 2001. In July, SCISL purchased Coachman Insurance Company.

The purchase of these two companies resulted in an increase of over $20 million in premiums. But an increase in premiums is certainly not the only reason behind these investments. In addition to growing the revenue base, these strategic purchases are part of SGI CANADA's long-term strategy to create and protect jobs in Saskatchewan and spread risk outside the province, thereby minimizing the impact of events such as serious storms.

The ICPEI and Coachman investments worked out favourably for SCISL in 2001, although it takes more than just a casual inspection to see how.

ICPEI and Coachman both show a loss for 2001. However, it is very important to note that when the 2001 results from ICPEI and Coachman are consolidated into the SCISL results, both are profitable for SCISL. This can be explained by examining the factors that contributed to ICPEI and Coachman having a negative bottom line.

In the case of ICPEI, there was a significant increase in the cost of claims from previous years. However, the costs from these prior year claims will be recaptured from the previous owners as part of the purchase agreement. Coachman also saw an increase in the cost of claims prior to SCISL becoming the owner. The cost of these claims will also be recovered from the previous owners.

This is standard practice in the insurance industry whereby conditions are imposed on the purchase agreement to ensure any adverse development on claims from prior years remain the responsibility of the previous owners.

SCISL took ownership of Coachman in mid-2001 and therefore only the last six months of Coachman's operations are consolidated in SCISL's results. The majority of the 2001 Coachman loss was incurred in the first half of 2001 and therefore has no effect on SCISL.

SCISL incurred a loss in 2001 on its investment in Palliser, a crop hail insurance company operating in Saskatchewan, Manitoba and Alberta. This loss can be attributed to significant hail activity in 2001 combined with premium rate deficiencies. Market conditions indicate that rates will improve in 2002. In the future, Palliser should see improved underwriting results.

About ICPEI

- ICPEI is based in Charlottetown and is the sixth largest property and auto insurer in PEI.
- ICPEI was incorporated in 1987.
- ICPEI is part of the Cooke Group of companies. The President of the Cooke Group of Companies – Charlie Cooke – has worked in the local insurance market for over 40 years.

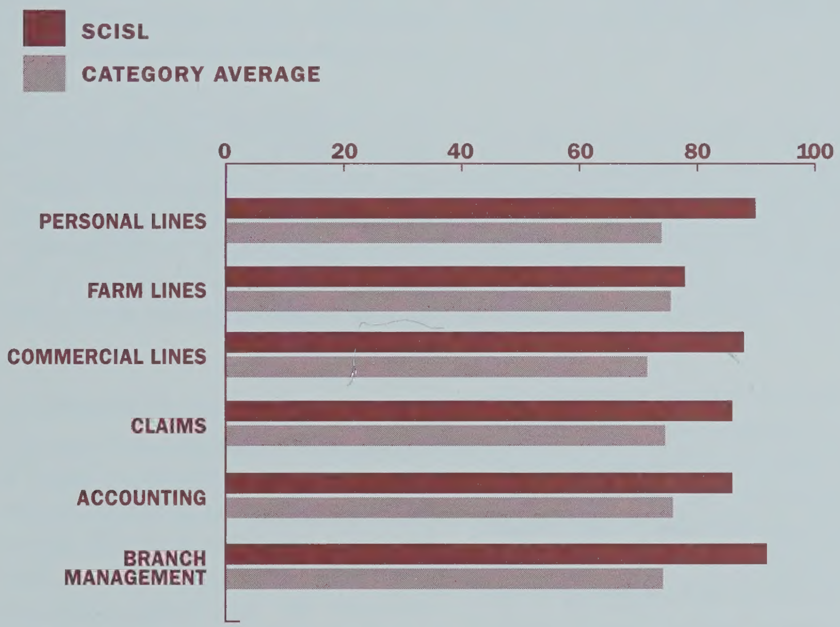
About Coachman

- Coachman is a leading niche insurance writer for personal use autos in Ontario.
- Coachman wrote approximately $25 million in premiums in 2001.
- Coachman has been in business for 22 years.
- Through this strategic purchase, SGI CANADA acquired expertise in the Ontario auto insurance market, which is the largest in Canada.

OUTSTANDING CUSTOMER SERVICE

SCISL is already well-established outside of Saskatchewan borders, as proven by its success in Manitoba. In fact, for the second year in a row, Manitoba brokers ranked SCISL first overall in the brokers' service survey from *Manitoba Broker* magazine, which asks brokers to rate various products and services provided by numerous insurers. SCISL received an overall approval rating of 86%, topping its previous year's rating of 82.5%.

Individual Category Results



Customer service will continue to be a top priority as we strive to maintain these standards and meet our customers' high expectations.

LOOKING AHEAD – 2002

The year ahead looks encouraging as we return to a more favourable market cycle. Rate increases and strict underwriting guidelines combined with improved investment earnings should have a positive impact on the bottom line.

The main focus for 2002 will be continuing to build the business with both Coachman and ICPEI. SCISL staff are currently working with Coachman to develop property and casualty lines products, which should be rolling out in 2002. SCISL staff will also be supporting ICPEI with their new auto system that was launched in late 2001.

The partnerships with Coachman and ICPEI proved successful in 2001, and we look forward to continued progress. Further expansion is also a possibility, as SCISL continues on the track of careful, controlled growth.

Management Discussion and Analysis

INTRODUCTION

The information in this discussion and analysis should be read in conjunction with SGI CANADA Insurance Services Ltd.'s (the Corporation's) financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

SGI CANADA Insurance Services Ltd. (SCISL) is a business corporation incorporated under the *Business Corporations Act of Saskatchewan* and is owned by three Saskatchewan government organizations: SGI CANADA (83%), Saskatchewan Auto Fund (7%) and CIC Industrial Interests Inc. (10%).

CORE BUSINESS

SCISL was formed in the early 1990s as a subsidiary of SGI CANADA to sell its property and casualty insurance products in other provincial jurisdictions. The mandate for SCISL is to spread SGI CANADA's geographic insurance risk outside Saskatchewan, grow its revenue base and protect and create jobs in the Province of Saskatchewan. SCISL operates like any other private insurance company in Canada; it pays taxes, has the same regulatory requirements and reports to the Provincial Superintendent of Insurance Office.

In 1993, SCISL obtained a Manitoba insurance licence and began operations late that year. Because this market was similar to Saskatchewan's, growth was achieved using the same model as SGI CANADA; appointing quality brokers one at a time and following disciplined underwriting practices. The goal was careful controlled growth and developing a strong relationship with local brokers. Since SCISL began operations at the end of 1993, it has grown to be the 12th largest insurer in Manitoba with direct premiums of over $7 million. Since almost all of the automobile insurance in Manitoba is written by government-owned Manitoba Public Insurance, SCISL's business is primarily personal and commercial property insurance.

In Manitoba, SCISL distributes its insurance products through a network of over 55 independent brokers. A significant emphasis is placed on developing strong relationships with brokers and providing good communications to ensure they have a solid understanding of SCISL's products. Supporting its broker network has been a key to SCISL's growth and it appears that brokers are satisfied with the services they are receiving, as SCISL consistently rates as one of the top insurers in Manitoba based on the Insurance Brokers' Association of Manitoba's annual broker survey.

Because SCISL lacked underwriting experience outside the Prairie provinces, the growth strategy in other provinces is through acquisition. In 2000, SCISL began negotiations to purchase the Insurance Company of Prince Edward Island (ICPEI), which concluded with SCISL becoming 75% owner on Jan. 1, 2001. ICPEI writes nearly $7 million of primarily auto and personal lines premiums in Prince Edward Island, making it the sixth largest property and casualty insurer in that province.

The other 25% shareholder is from PEI and has extensive experience in this market. ICPEI provides the underwriting expertise while SCISL provides the infrastructure, such as computer systems, reinsurance and accounting. The operations of ICPEI are similar to those of SGI CANADA in that it has a long history and understanding of the province where it operates, translating into underwriting results that are consistently better than other insurers in the province.

The 25% minority shareholder is also the owner of ICPEI's sole brokerage, as well as a company that adjusts ICPEI claims and a premium financing company that provides financing to its policyholders. SCISL is currently in negotiations to become a shareholder in these three companies.

SCISL obtained an insurance licence in Ontario in 1995, but because it did not have underwriting experience in Ontario or a computer system to underwrite Ontario automobile insurance, growth was limited. To accelerate growth in this market, SCISL acquired the Coachman Insurance Company of Ontario on July 1, 2001. Coachman is a niche writer of medium-risk personal auto coverage in Ontario with total premiums of over $25 million. Coachman distributes its product through a network of over 90 independent brokers.

GROWTH

Growth in Manitoba will continue as it has in the past, at a controlled rate, by appointing new brokers who can provide profitable business to SCISL. In the past five years in Manitoba, SCISL has averaged a 13% direct premium growth rate.

Significant opportunities for growth exist in the Prince Edward Island market. Because of poor operating results over the last several years in this market, some

insurers are withdrawing. It is anticipated that this will result in significant growth in 2002 for ICPEI from both increased market share and premium rate increases. ICPEI is currently analyzing expansion into other Maritime provinces, as some insurers are exiting these markets, which could create opportunities for ICPEI. Because these markets have been producing unfavourable loss ratios, expansion will be approached with caution.

Because SCISL did not offer an automobile product in Ontario, growth had been limited. However, with the purchase of Coachman it can now offer brokers both an automobile product and its personal and commercial property products. This will provide SCISL with premium growth in 2002 as some Coachman brokers will begin selling SCISL's products.

MEASURING SUCCESS

SCISL was formed to spread SGI CANADA's geographic risk outside Saskatchewan, grow the revenue base and protect and create jobs in the province. Because all of SCISL's premium revenue is from outside the province, any growth in premiums will help spread the geographic risk. SCISL must continue to rely on strict underwriting guidelines in order to establish a solid book of business.

OVERVIEW OF 2001

In 2001, SCISL realized a consolidated after-tax profit of $294,000, compared to an after-tax loss of $747,000 in 2000. Improved financial results are due to consolidated income derived from the two new subsidiaries purchased in 2001, Coachman and ICPEI. Consolidated financial results include the subsidiaries since their dates of acquisition, 12 months for ICPEI and six months for Coachman.

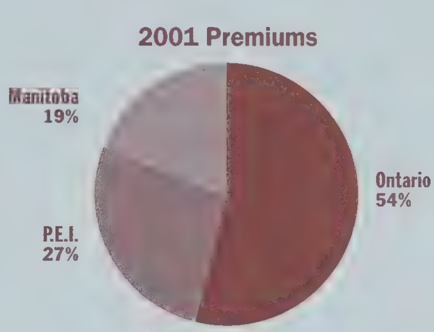
While the subsidiaries lost money in 2001 on their stand-alone financial statements, on consolidation, SCISL generated a profit from their operations. A large component of the losses in the subsidiaries is a result of development on claims prior to SCISL becoming an owner. However, negotiated into the purchase agreement for each company was a recovery on this claim development. This recovery is included in the 2001 consolidated statement of operations as a reduction to claims incurred.

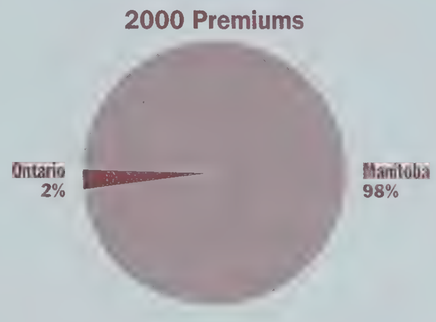
Another factor affecting reconciliation of the stand-alone statements of the subsidiaries to SCISL's consolidated results is that Coachman's operations are only consolidated from July 1, 2001. The majority of Coachman's loss occurred in the first half of the year.

Premiums Written

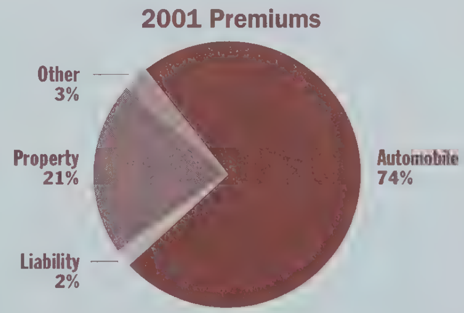
Net premiums written grew in 2001 to $25.4 million compared to $3.2 million in 2001. The growth was from Coachman ($13.6 million), ICPEI ($6.8 million) and from SCISL's Manitoba and Northwestern Ontario operations ($1.8 million). Increased premium in SCISL's operations is from growth in direct premium as well as a reduction in premiums ceded to the reinsurer, SGI CANADA. As SCISL grows, it is able to retain more of its premium.

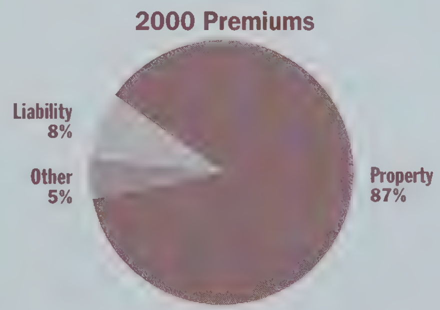
Premiums by Province





Premiums by Line of Business





Underwriting Operations

The underwriting philosophy of SCISL and the subsidiaries is the same – underwrite each individual policy based on established underwriting criteria. Both SCISL and ICPEI (beginning in 2001) use the General Insurance System (GIS) of the parent, SGI CANADA. The GIS is an integrated claim and underwriting system which has been developed internally by SGI CANADA and is considered a competitive advantage for the Corporation.

SCISL incurred a consolidated underwriting loss in 2001 of $3.4 million, compared to a $700,000 loss in 2000. The underwriting loss in 2001 from Manitoba and Northwestern Ontario operations was essentially the same as last year's loss of $700,000. The remainder of the loss in 2001 is from the subsidiaries, with Coachman's loss at $1.5 million and ICPEI's at $1.2 million.

The underwriting results for Coachman and ICPEI were not unexpected as these regions have been experiencing extreme competition combined with escalating claim costs. However, the market appears to be improving as some insurers are leaving the market and those that are remaining are aggressively increasing rates. Both Coachman and ICPEI have been increasing rates as well as making underwriting changes to improve underwriting results.

INVESTMENT EARNINGS

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the companies' equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations.

Investment earnings totalled $2.5 million in 2001, compared to a loss in 2000 of $336,000. The increase in earnings was a result of consolidating investment earnings from the subsidiaries. As part of the purchase of the subsidiaries, SCISL has appointed Greystone Managed Investments Inc. as investment manager for both companies.

Included in the consolidated investment earnings in 2001 is a $633,000 loss representing SCISL's share of the loss on its investment in a crop hail insurance company. SCISL also recorded a loss in 2000 on this investment of $710,000. However, even after considering the losses of the last two years, SCISL has an overall profit of $151,000 since making the investment in this business in 1997.

REINSURANCE

Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are that it increases an insurance company's capacity to write business and it provides greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

SGI CANADA, SCISL's parent, with a capital base of $93 million, is SCISL's main reinsurer. In the early years, because SCISL was relatively small, it ceded a large portion of its premiums to the reinsurer. However, as SCISL has been growing, the Corporation has been increasing the amount that it retains.

LIQUIDITY

The Corporation has a reinsurance program in place to protect against large losses and major catastrophes and an investment portfolio that largely consists of investments traded on major stock exchanges. The Corporation is therefore confident it has sufficient resources to meet all financial obligations as they fall due.

RISK MANAGEMENT

The following issues and risks, among others, should be considered when evaluating SCISL:

Catastrophe Exposure

Property and casualty insurers are subject to losses arising from catastrophic events. To contain this risk, SCISL purchases catastrophe reinsurance protection which reduces the potential impact from major losses as a result of catastrophic events. SCISL is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some loss of

policies until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers.

Provision for Unpaid Claims

A provision for unpaid claims is maintained to cover the liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported. These provisions are estimates and the ultimate payment on these claims may differ from the estimate.

Investment Returns

SCISL's profit is derived from the investment portfolio and therefore, fluctuations in returns will affect the net profit for the year. To mitigate fluctuations, the Corporation maintains a well-diversified investment portfolio. The portfolio consists of bonds (59%), preferred shares (15%), common shares (15%), cash and treasury bills (7%) and the investment in the crop hail insurance business (4%).

Acquisitions

With SCISL's purchase in 2001 of ICPEI and Coachman, the Corporation faces the risk of adverse claim development from claims prior to becoming owner. The Corporation has mitigated the risk on both of these acquisitions. With the ICPEI investment, as part of the purchase agreement the previous owner is required to refund to SCISL any prior years' development. For the Coachman investment, $2.7 million of the purchase price is held in trust to be applied against prior years' claim development.

LOOKING FORWARD

With acquisition of the subsidiaries now completed, the emphasis will be on profitability. Significant changes have been made in both companies, such as rate changes, increasing the capital base, a new investment manager and underwriting changes. As well, operational efficiencies will be implemented where applicable utilizing the established infrastructure of the parent SGI CANADA.

Several growth initiatives will be pursued in 2002, such as selling SCISL's property insurance products in Ontario and expansion by ICPEI into other Maritime provinces. As well, expansion opportunities through acquisitions and alliances in other Canadian provinces will continue to be explored in 2002.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Larry Fogg
President

John Dobie
Vice President
Finance and Administration

February 15, 2002

Actuary's Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2001 and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 15, 2002

Jean-Luc E. Allard
Fellow, Canadian Institute of Actuaries

Auditors' Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

We have examined the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2001 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 15, 2002

Consolidated Statement of Financial Position

December 31	2001	2000
	(thousands of $)	
Assets		
Cash and treasury bills (note 4)	$ 4,413	$ 157
Accounts receivable (note 5)	17,664	2,029
Deferred policy acquisition costs	3,458	1,034
Unpaid claims recoverable from reinsurers (notes 8 & 9)	6,266	2,036
Reinsurers' share of unearned premiums (note 8)	1,490	2,116
Future income taxes	4,120	-
Goodwill	481	-
Investments (note 6)	55,217	10,778
Capital assets (note 7)	214	-
	$ 93,323	$ 18,150
Liabilities		
Accounts payable	$ 1,281	$ 220
Premium taxes payable	395	142
Future income taxes	311	101
Amounts due to reinsurers (note 8)	430	26
Provision for unpaid claims (note 9)	44,191	3,409
Unearned reinsurance commissions	500	717
Unearned premiums	20,424	3,832
	67,532	8,447
Non-controlling Interest	**1,107**	-
Shareholders' Equity		
Share capital (note 12)	16,900	6,000
Deposit on new share issuance	-	2,700
Contributed surplus	7,487	1,000
Retained earnings	297	3
	24,684	9,703
	$ 93,323	$ 18,150

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

year ended December 31	2001	2000
	(thousands of $)	
Premiums written	$ 25,350	$ 3,188
Premiums earned (note 8)	**$ 22,960**	$ 3,046
Claims incurred (note 8)	19,910	2,408
Commissions and premium taxes (note 8)	3,842	893
Administrative expenses (note 8)	2,577	445
Total claims and expenses	**26,329**	3,746
Underwriting loss	**(3,369)**	(700)
Investment earnings (loss) (note 10)	2,461	(336)
Net loss before the following:	**(908)**	(1,036)
Future income tax recovery (note 11)	(1,059)	(289)
Non-controlling interest	(143)	-
Net profit (loss)	**294**	(747)
Retained earnings, beginning of year	3	750
Retained earnings, end of year	$ **297**	$ 3

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2001	2000
	(thousands of $)	
Cash provided by (used for) operating activities		
Net profit (loss)	$ 294	$ (747)
Non-cash items:		
Amortization	245	79
Realized gain on disposal of investments and capital assets	(1,117)	-
Loss from equity investment	633	710
Investment write downs	199	-
Income attributable to non-controlling interest	(143)	-
Change in non-cash operating items:		
Accounts receivable	1,167	(684)
Deferred policy acquisition costs	(595)	(71)
Unpaid claims recoverable from reinsurers	2,316	(861)
Reinsurers' share of unearned premiums	628	(163)
Future income taxes	(1,269)	-
Accounts payable	(393)	(20)
Premium taxes payable	(127)	7
Future income taxes payable	500	(289)
Amounts due to reinsurers	414	(184)
Provision for unpaid claims	(3,436)	1,319
Unearned reinsurance commissions	(219)	54
Unearned premiums	734	305
	(169)	(545)
Cash provided by (used for) investing activities		
Purchases of investments	(143,487)	(3,628)
Purchase of Coachman (net of cash deficit from acquisition)	(9,029)	-
Purchase of ICPEI (net of cash equivalents acquired from acquisition)	(1,804)	-
Proceeds on sale of investments	141,392	1,054
Purchases of capital assets	(33)	-
	(12,961)	(2,574)
Cash provided by financing activities		
Common share issuance and deposit on new share issuance	8,200	2,700
Contributed surplus	6,487	-
Shareholder contributions in ICPEI	261	-
	14,948	2,700
Increase (decrease) in cash and cash equivalents	**1,818**	(419)
Cash and cash equivalents:		
Balance, beginning of year	157	576
Balance, end of year	**1,975**	157
Plus treasury bills greater than 91 days to maturity from acquisition date	2,438	-
Cash and treasury bills per statement of financial position	$ **4,413**	$ 157

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2001

1. Status of the Corporation

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated July 18, 1990, under the *Business Corporations Act of Saskatchewan.* The Corporation holds a Saskatchewan provincial insurers' licence under the *Saskatchewan Insurance Act* and is licensed to conduct business in Manitoba, Ontario and Prince Edward Island.

Saskatchewan Government Insurance (SGI CANADA) owns 83% (2000 – 53%) of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with generally accepted Canadian accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman Insurance Company, and its 75%-owned subsidiary, the Insurance Company of Prince Edward Island. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of net assets acquired. Goodwill is amortized on a straight-line basis over 20 years.

Investments

Bonds are recorded at amortized cost. Treasury bills, common shares and preferred shares are recorded at cost. Dividends on common shares and preferred shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of settlement.

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies. The investment is recorded on an equity basis, whereby the carrying value of the investment is adjusted by the Corporation's share of the hail business earnings or losses and reduced by cash received.

Capital assets

Capital assets are recorded at cost, less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three years for computer hardware and software and five years for other equipment.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. Acquisitions

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of $2,770,000 on Jan. 1, 2001. In December 2001 the Corporation purchased $300,000 in preferred shares in ICPEI and subsequent to December 2001, purchased an additional $400,000 in preferred shares. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to the Corporation an amount equal to 75% of any unfavourable development on claims in ICPEI prior to 2001. Conversely, the Corporation will pay to the previous owner an amount equal to 75% of favourable development on claims prior to 2001. The payment in both instances is subject to a $100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003, and will be released by March 31, 2004. In 2001, unfavourable development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $461,000.

On July 1, 2001, the Corporation acquired 100% of the outstanding shares of Coachman Insurance Company (Coachman) for cash of $8,185,000 and subsequent to the acquisition, invested another $6,529,000 in contributed surplus into Coachman. Of the original investment of $8,185,000, $2,700,000 is held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims prior to April 30, 2001. This agreement is in effect until Dec. 31, 2002 and will be released by March 31, 2003. In the current year, development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $231,000.

Both acquisitions are accounted for as purchases with the results of operations included in the consolidated financial statements from the date of acquisition. The statement of cash flows includes the purchases of the subsidiaries net of cash acquired through the acquisition. The difference between the acquisition cost of a subsidiary and the fair value of net identifiable assets acquired represents goodwill. During the year, $27,000 of goodwill has been amortized. The purchase prices have been allocated to the subsidiaries' net identifiable assets as follows:

Net assets acquired:	ICPEI	Coachman
	(thousands of $)	
Cash and short-term investments	$ 547	$ (844)
Other current assets	2,909	24,457
Long-term investments	5,022	38,208
Goodwill	478	30
Current liabilites	(2,305)	(14,623)
Provision for unpaid claims and adjustment expenses	(3,881)	(39,043)
Purchase price	$ 2,770	$ 8,185

4. Cash and Treasury Bills

Cash and treasury bills include treasury bills and commercial paper that have an average effective interest rate of 2.6% and an average remaining term to maturity of 72 days. Cash and treasury bills at the end of 2000 consisted of cash only. The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating agency.

5. Accounts Receivable

Accounts receivable is comprised of the following:

	2001	2000
	(thousands of $)	
Due from brokers	$ 2,879	$ 904
Financed premiums receivable	10,651	812
Due from reinsurers	421	170
Accrued investment income	501	96
Other	3,212	47
Total accounts receivable	$ 17,664	$ 2,029

6. Investments

The carrying value and fair value of the Corporation's investments are as follows:

	2001		2000	
	(thousands of $)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 35,071	$ 35,668	$ 5,226	$ 5,656
Common shares	8,856	9,831	-	-
Preferred shares	9,139	9,144	-	-
	53,066	54,643	5,226	5,656
Investment in crop hail insurance business	2,151	2,151	2,784	2,784
Deposit on investment in ICPEI	-	-	2,768	2,768
Total investments	$ 55,217	$ 56,794	$ 10,778	$ 11,208

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 5% of the market value of investment assets for corporate bonds and debentures and 25% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

Term to maturity (years)	2001 Carrying Value	2001 Average Effective Rates	2000 Carrying Value	2000 Average Effective Rates
	(thousands of $)			
Government of Canada:				
One or less	$ 439	7.4%	$ -	-
After one through five	9,039	5.6%	2,388	6.0%
After five	8,264	6.2%	1,260	8.5%
Canadian provincial:				
After one through five	5,198	6.6%	1,578	6.0%
After five	4,592	6.1%	-	-
Canadian corporate:				
One or less	350	8.0%	-	-
After one through five	3,469	6.1%	-	-
After five	3,720	6.6%	-	-
Total bonds & debentures	$ 35,071		$ 5,226	

(ii) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.2%.

(iii) Preferred shares:
Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 5.7%.

(iv) Deposit on investment in ICPEI:
Included in investments in 2000 is a $2,768,000 deposit for the purchase of a 75% interest in the Insurance Company of Prince Edward Island (ICPEI).

7. Capital Assets

The components of the Corporation's investment in capital assets, as well as the related accumulated amortization, are as follows:

	2001 Cost	2001 Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
	(thousands of $)			
Computer hardware, software and other equipment	$ 733	$ 519	$ 214	$ -
Total	$ 733	$ 519	$ 214	$ -

Amortization for the year is $114,000.

8. Underwriting Policy and Reinsurance Ceded

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount of $50,000 on any one loss, and $500,000 on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and administrative expenses:

	2001	2000
	(thousands of $)	
Premiums earned	$ 5,921	$ 3,832
Claims incurred	2,380	3,203
Commissions and premium taxes	781	827
Administrative expenses	381	460

9. Provision for Unpaid Claims

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Through its subsidiary, the Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total $831,000.

Changes in the estimate for the provision for unpaid claims in 2001 and 2000 are as follows:

	2001	2000
	(thousands of $)	
Net unpaid claims - beginning of year	$ 1,373	$ 917
Unpaid claims acquired through acquisition	34,026	-
Payments made during the year relating to prior year claims	(13,079)	(688)
Deficiency (excess) relating to prior year estimated unpaid claims	429	(41)
Net unpaid claims for claims of prior years	22,749	188
Provision for claims occurring in the current year	15,176	1,185
Net unpaid claims - end of year	$ 37,925	$ 1,373

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by line of business as follows:

	2001			2000		
	(thousands of $)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 39,682	$ 4,287	$ 35,395	$ -	$ -	$ -
Property	3,355	1,642	1,713	3,163	1,903	1,260
Liability	1,154	337	817	246	133	113
Total	$ 44,191	$ 6,266	$ 37,925	$ 3,409	$ 2,036	$ 1,373

10. Investment Earnings

The components of investment earnings are as follows:

	2001	2000
	(thousands of $)	
Interest and dividends	$ 2,176	$ 374
Realized gain on sale of investments	1,117	-
Loss from crop hail insurance business	(633)	(710)
Investment writedowns	(199)	-
Total investment earnings	$ 2,461	$ (336)

11. Income Taxes

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2001	2000
	(thousands of $)	
Net loss before income taxes	$ (765)	$ (1,036)
Combined federal and provincial tax rate	42.62%	46.12%
Computed tax expense based on combined rate	$ (326)	$ (478)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(518)	131
Difference due to subsidiary taxes	(191)	-
Other	(24)	58
Total income tax recovery	$ (1,059)	$ (289)

12. Share Capital

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. In 2001, the Corporation issued 2,042,193 common shares to SGI CANADA in exchange for $10,900,000. At the end of 2001 there are 3,242,293 (2000 - 1,200,100) common shares issued. During the year SGI CANADA contributed an additional $6,487,000 in contributed surplus.

13. Fair Value

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
- (a) cash and treasury bills
- (b) accounts receivable
- (c) accounts payable
- (d) premium taxes payable
- (e) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices:
- (a) bonds and debentures
- (b) common shares
- (c) preferred shares

(iii) The fair value of the investment in the hail business is considered to approximate book value.

(iv) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 9).

14. Related Party Transactions

SGI CANADA provides management and administrative services to the Corporation as well as being the reinsurer (note 8). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were $59,000 (2000 - $58,000) and accounts receivable are $41,000 (2000 accounts payable - $13,000).

The Corporation's subsidiary, ICPEI, has direct premiums which are written by a company that is affiliated with a minority shareholder of ICPEI. The receivable at the end of the year is $676,000 (2000 - $1,098,000). The minority shareholder is a member of ICPEI's senior management. ICPEI incurred $301,000 (2000 - $274,000) in claim adjusting fees from a company related to the minority shareholder. The policies written are in the normal course of business. A company related to the minority shareholder provides premium financing for policyholders.

13. Facility Association

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks. Facility Association funds are deposited with the pool and recorded as assets due in the amount of $1,055,000. The Corporation currently carries related liabilites for unearned premiums of $163,000 and unpaid claim expenses of $1,543,000.